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MICHIGAN'S MEDICAID BUDGET

Within a few days, the Governor will present her proposed budget and hearings will begin in the Appropriations sub-committees of the Legislature. There probably is not a person in Michigan by now who does not realize that this budget will be more difficult than any in the past decade because of a $1.8 billion decrease in projected revenues. Under the state constitution, the Governor must propose a spending plan which is balanced to those revenues. Unlike the federal government (and the state of Vermont), all states must balance their budgets.

Being a policy proponent, I have never aspired to sit on the Appropriations Committee and these days I am even more grateful not to be there, but as the Chair of the Senate Health Policy Committee, I have a great interest in the projected Medicaid deficit of $430 million in the General Fund. The actual projected shortfall will be around $1 billion because this program has a 45/55 state/federal match. There is only about $40 million remaining in the Medicaid Trust Fund (that program's rainy day fund) to offset any deficit.

Michigan is not unique as all states are faced with similar shortfalls in their Medicaid programs. Typically, the Medicaid budget is the second largest in a state's budget, trailing only spending for K-12 education. Today Medicaid represents 25% of the total Michigan budget; in 2004 we would need to utilize 32% of the budget to sustain. If costs rise unexpectedly during the fiscal year or if the right factors are not taken into account in determining estimates, we will have to make adjustments during the year to keep the budget in balance.

Medicaid expenditures are increasing for many of the same reasons private health insurance expenditures are increasing: the rising cost and utilization of prescription drugs and the increasing costs of hospitalization and nursing home care. The impact to Medicaid is even greater because it provides coverage to low-income seniors and people with disabilities who use more of these services. Typically these populations account for about 20% of Medicaid enrollees but 80% of the expenditures. As an example Medicaid Prescriptions in 2000 averaged $1582 annually per recipient for the aged and $1443 for the disabled compared to $157 for children and $145 for adults.

Michigan has taken steps to get its arms around Medicaid prescription costs by adopting an approved list of drugs similar to those utilized in many private managed care settings. This is currently saving the state about $800,000 per week. The Governor is also working with other states to develop further group purchasing savings. Most people, however, do not realize that while all states have programs, prescription coverage is optional under Medicaid and while I do not see us eliminating the program, I fully realize that we must look first at those things we must fund before we look at programs we want to fund.

So, what are the options? Typically, states look at three: reduce eligibility, reduce optional services and reduce reimbursement. Reducing reimbursement further (it doesn't cover cost today) results in fewer providers accepting Medicaid patients. Without access to less expensive primary care, patients then wait until health conditions worsen to a crisis level and appear for treatment in emergency rooms. The same result occurs with the other two options as well when fewer people are eligible for coverage. So costs saved in the short term usually are offset by higher costs for more acute care.

Yes, this will be a challenge, but I also see it as an opportunity to look at programs and make positive changes. Without these cyclical downturns in the economy, government would continue to perpetuate itself, add programs and grow. In times when revenues are short, we are forced to look at how we can more effectively utilize those revenues we have. And that's where the policy committee can play a role. By looking at programs such as estate recovery, disease management, consumer directed care, in-home vs. nursing home, drug utilization review, etc. we can implement cost-saving mechanisms that will assist the appropriations members in their most difficult task.

We will survive this as we have in the past. The shortfall we face today represents 13% of the total budget. In the early 1990's, then Governor Engler was faced with a 12% deficit, and Governor Milliken dealt with a 21% deficit in FY1981-82. And finally, some even remember the payless paydays during the days of Soapy Williams!

By Senator Bev Hammerstrom

17th District